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## THE FINANCIAL SYSTEM OF JAPAN.

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IN compliance with the request of the Editor of the NORTH AMERICAN REVIEW, I propose in these pages to trace briefly the development of the financial system in Japan since the inauguration of the present era. As the Restoration of 1868 was an event necessitated by the force of circumstances, it was accomplished with comparative ease, so far as the transfer of political power from the Shogunate to the theoretically legitimate Imperial Government was concerned. But Japan had then to enter upon a new course in her national and international existence. It was necessary for the hitherto isolated nation to remodel its institutions fundamentally, in order to equip itself for intercourse with the Western countries and for participation in the general progress of the world. The fall of the Shogunate and the revival of the Imperial rule constituted thus only the beginning of a difficult and complicated task—the making of New Japan. It is with one important aspect of this task that I purpose to deal in the present sketch.

It is not surprising that a government emerging from the throes of a revolution should be financially embarrassed at the outset. But the case of our Imperial government after its

restoration to actual power was an exceptionally peculiar one, owing to the nature of the government it had replaced—a circumstance to which I shall advert presently. The chaotic condition of the finances of the new government may be inferred from the fact that, in the first year of its existence, the revenue accruing from taxation was little more than one-tenth of the expenditure, and that the deficit had to be met chiefly by the issue of inconvertible notes.\* Nor was this state of things confined to the year immediately following the Restoration, for it was not until a few years afterwards that the issue of notes ceased to be an important item of the revenue. One of the most pressing needs of the new government was, therefore, to secure sufficient resources for the public Treasury by establishing a proper system of taxation; and, in doing this, care had to be taken to make the new system consonant with the policy of facilitating and encouraging the economic progress of the nation.

It is a known characteristic of the feudal system that under it there is no clear distinction between administrative powers and proprietary rights. Japan under the Shogunate was no exception to the rule. The lords of the fiefs, into which the country was divided, not only governed, but also held a sort of proprietary right over, their respective domains, with the result that the rights of the people over their estates were restricted in more ways than one, and that the land-tax had much of the nature of rent. The tax paid in rice was the main source of the lords' revenues; though, in the lack of any fixed and common system of taxation, its rate varied in the various fiefs, while other miscellaneous duties were imposed according to the industrial conditions of the different localities. Hence the burdens of the agricultural population were unduly heavy, the rate of the tax on land ranging between thirty and seventy per cent. of its net produce. As to the people in general, their position as taxpayers was ill-defined and vexatious, liable as they were to the arbitrary imposition of irregular contributions in the form of money and personal service. In fact, the feudal system under the Shogunate was a military organization, in which the welfare of the agricultural, industrial and commercial classes was avowedly and wantonly sacrificed for the maintenance of the warrior class.

\* The chief items of the revenue in 1868 were as follows: Taxes, 3,157,310 yen; issue of notes, 24,037,390 yen; loans, 4,732,482 yen; etc.

While the position of the people as taxpayers was thus ill-defined, the position of the Shogunate as the central government was also financially a peculiar one. The Shogunate exercised a supreme authority over all the clans, but the whole country was not under its direct government. The lords of the clans, holding their domains by grant or recognition of the Shogunate, were required, in case of need, to put their military force at its disposal, and to render it certain other services. Contributions, not very great in amount, were also made by some of the clans to the revenue of the Shogunate; but no tax was to be directly imposed by the central government upon the subjects of the lords of the various fiefs. The ordinary revenue of the Shogunate was raised principally from the territories reserved as its own, in distinction from those granted to the clans. It would seem, therefore, that in this respect the Shogunate was not much more than the greatest of the clans.

Now it will be easy to understand how the financial difficulties of the newly restored Imperial government were aggravated by the peculiar nature of its predecessor. In 1868, the central authority was, indeed, transferred to the Imperial government, but the resources of the whole country were not yet under its command. It was not enough for the new government simply to take the place of the old; but the social and political organization had to be radically altered so as to meet the requirements of the novel situation. Before anything like a sound financial adjustment could be hoped for, it was essential to effect the complete abolition of the feudal system—especially the particularism of the clans and the undue privileges of the warrior class.

The impulse toward unification, conscious in certain sections of the nation and unconscious in others, was indeed one of the most potent causes of the Restoration, and, by the time it was effected, the centralization of authority was almost universally perceived to be an indispensable antecedent to the establishment of the new order. Thus, in 1869, the second year after the Restoration, all the clans of their own accord surrendered their "domains and people" to the Imperial government, and, in 1871, a prefectural system was instituted for the administration of the whole country, putting it under the direct control of the central government.\* The feudal privileges of the clans and clansmen

\*Even after surrendering their "domains and people" to the Imperial

were thus abolished, and the country was to be henceforth governed by uniform laws, before which all sorts and conditions of people were to stand on a footing of equality.

One of the important results of the abolition of the feudal system was that it became possible to make a clear distinction between administrative powers over the territory and proprietary rights over the soil, which were inseparably united under the authority of the Shogunate and of the lords of the clans. In the petition of the lords for permission to surrender their "domains and people" to the Imperial government, the reason given for their decision was that, "since all domains and people belong to the Emperor, we, subjects of His Majesty, must not own them privately." In confirming the territorial sovereignty over the domains thus put at its disposal, the new government retained the sovereign administrative power according to the modern principles of public law, while the proprietary right over land was granted to private persons. Herein was laid the foundation for a stable financial system calculated to secure sufficient revenues to the government, and to put the obligation of the people as taxpayers on a well-defined and uniform basis. The first and most far-reaching step toward the full establishment of the new system was the reform of the land-tax, a measure so far-reaching in its effects that it is indeed to be counted among the most weighty events in the annals of New Japan. However, in order to appreciate the importance of this reform justly, it must be looked at in co-ordination with some other achievements of recognized prominence.

Among the fundamental principles of the new régime, as announced in the famous Five Articles of the Imperial Oath which were promulgated on the very morrow of the Restoration, three may be noticed as standing out most conspicuously, namely: the active participation of the nation in the progress of the world, respect for public opinion in the direction of state affairs, and the social emancipation of the whole populace.\* As the respect for public opinion culminated in the introduction of the represen-

Government, the lords of the clans were appointed governors of the districts corresponding to their former domains, and allowed to retain a large portion of the power exercised by them under the Shogunate. The change of 1869 was, therefore, only nominal. The real abolition of the feudal privileges dates from the establishment of the prefectural system, under which the former lords were entirely replaced by agents of the central Government as local governors.

\*The third article of the Oath says that every man, even among the common people, should be allowed to have full scope for his abilities.

tative system, and the policy of active participation in the general progress led to the acquisition of a perfect international status in consequence of the revision of treaties, so the emancipation of the people prepared the way for a remarkable display of economic activity. Of course, no definite time can be pointed to as marking the consummation of the last of these eventualities, as in the case of the other two. If, however, it were to be commemorated in association with some event, the land-tax reform would be the most fitting one. In the overthrow of the feudal system, the abolition of the privileges of the warrior class paved the way for constructive effort in the work of emancipation; in this constructive work, the land-tax reform, confirming the most important form of private property, was the greatest legislative measure.

The reform of the land-tax was proposed in 1869; the fundamental laws relating to this reform were promulgated in 1873; and in 1881 the reform was finally accomplished. Though the measure was called a reform, it was in reality nothing less than the genesis of a uniform system which had been at once made possible and necessitated by the political unification of the country. The salient features of the new system may be epitomized as follows:

(1.) The proprietary right of private persons over land was recognized and confirmed by conferring title-deeds upon them. In Europe, there seem to have been cases in which feudal domains were retained as private possessions either by the Crown or by the feudatories, even after the political system of overlordship ceased to exist. Consequently, the conversion of the feudal tenure of land into perfect proprietorship by the common people had sometimes to be effected by purchase. But the case was different in Japan, all occupiers of land there being at once, and without any transaction of a personal character, recognized as owners of the respective lands actually held by them.\*

(2.) Restrictions on the people's right over their landed estates were taken away. This was but a corollary of the recognition of their perfect ownership. Under the Shogunate, the sale and purchase of land were forbidden, though various means of evading the law were not unknown. The feudal tenants also had

\*For giving up their domains, the feudal lords and their retainers were indemnified by the grant of Government loan bonds, on which they drew the interest.

not absolute liberty to decide for themselves as to what products they should raise from the land they cultivated. Since each clan aimed at being self-sustaining, as far as possible, in its supplies, and as the production of rice was everywhere considered important above all, official interference was exercised sometimes even to the detriment of the real capabilities of the soil. But the perfect proprietorship of land confirmed by the land-tax reform included, as a matter of course, the right of alienating or exploiting it according to the free choice of the owner, so that the resources of the country might be developed and utilized to the best advantage.

(3.) As the basis of taxation, an official assessment of the value of land was made throughout the country. This will account for the fact that rather a long time was required for the accomplishment of the land-tax reform. Under the Shogunate, the produce of land was the basis of taxation, so that the annual crop had to be officially examined from time to time. Not only was the process highly embarrassing to all concerned, but it was not calculated to secure a steady public revenue. The adoption of the new basis of taxation was to be desired from all points of view; only the undertaking was one of tremendous magnitude. The difficulties attending the cadastral survey are so great that, if I am correctly informed, it has not been finished or even attempted at all in certain countries of Europe, one of them having failed to accomplish it after working at it for forty-three long years. But the new government of Japan, impetuously bent on reform and progress, was strongly determined to overcome every difficulty in carrying it through. In assessing the value of land, the annual amount of its net produce over an average of five years was first converted into a money value according to its average price for the same period; and then, this money value of the produce being considered as interest, the amount of capital estimated as necessary for yielding it was taken as the value of the land. By this method the official valuation of the land was completed in 1881, and it was revised in 1899, with a view to removing certain defects. Japan has thus at present a cadastre of tolerable perfection.

(4.) The land-tax was made payable in money, whereas under the Shogunate it had to be paid in rice and other produce. With this change, the quasi-rental character of the land-tax entirely

disappeared, and its rate was fixed at a percentage of the legal value of land. The burden of the agricultural population was also considerably lessened, for the tax on land was fixed, at the time of the initiation of the reform, at three per cent., and in 1877 reduced to two and one-half per cent. of its legal value, at which rate the tax remained till the recent augmentation of taxes as a part of the so-called *post bellum* financial programme.

The signification of the land-tax reform will be manifest from the preceding summary. Land being, after all, the basis of our material life, there can be no question about the great importance of a radical change in the system of land tenure. It may be said, indeed, that the land-tax reform ushered in the social conditions under which a free play of the economic forces of the country became possible. The general principle that the obligation of the people as taxpayers should be regulated by proper laws was also implied in, and exemplified by, the land-tax legislation—a principle which was afterwards expressly guaranteed by a provision of the Constitution.

As regards the revenue of the government, it was natural, in the early years of the present era, that by far the largest portion of it should come from the land-tax; for Japan of old was essentially an agricultural country, other industries having yet to be developed under the new régime. Even in 1881, the year in which the land-tax reform was completed, the yield of that tax, which was the sole direct tax imposed at the time, amounted to 42,000,000 yen in a total taxation of 60,000,000 yen.\* The fundamental source of the national revenue was thus the land-tax. But, to meet the increasing public needs of the rapidly progressing country, it was necessary to seek, besides the comparatively stationary land-tax, such sources of revenue as expand automatically in proportion to the growth of national wealth. Hence, after a careful examination of the items of miscellaneous taxation that had existed under the Shogunate, the new government imposed certain indirect taxes; and in 1887 the income tax, at a rate of from one to three per cent., was introduced as a new direct tax. Among the indirect imposts, the *sake*† tax has probably occupied the most important place from olden times, though for-

\* These figures are given in round numbers, as is the case in other similar passages of the present article.

† Generic name of intoxicating liquors; in particular the common drink of the Japanese, brewed from rice.



merly there appears to have been no fixed system of taxing alcoholic drinks. The adoption of the present basis of taxation—the amount of *sake* brewed in the measure of *koku*\*—dates from 1878. The rate of the *sake* tax, which has been raised several times since it was first fixed on the new basis, stood at four yen per *koku* before the inception of the *post bellum* programme. Since the war with China has given rise to considerable changes in the financial condition of Japan, it may be well to give here the figures showing the main items of the national revenue in the year before the memorable event:

## THE ORDINARY REVENUES IN 1893:

Land tax.....	Yen 38,808,680
Income tax.....	1,238,763
Sake tax.....	16,637,436
Customs duties.....	5,125,372
Other taxes.....	8,194,512
<hr/>	
Total taxation.....	Yen 70,004,763
Revenue from Government industries and Government property..	11,743,268
Miscellaneous receipts.....	4,135,049
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Grand total.....	Yen 85,883,080

After the war of 1894-5, the national expenditures increased remarkably, in consequence of the various schemes intended to enable the country to face the new situation in the Far East. The extraordinary expenditures were to be met by appropriating the war indemnity, and by raising public loans; but, to meet the increase of the ordinary expenditures, there was no choice but to increase the taxes, which means has since then been thrice resorted to—first in 1896, then in 1899, and a third time last year. The augmentation in the annual revenue resulting from these measures of increased taxation is estimated at 95,000,000 yen. I shall now give a brief account of the more important items of this increase.

The rate of the *sake* tax was raised to seven yen per *koku* in 1896, to twelve yen per *koku* in 1899, and to fifteen yen per *koku* last year. The scheme adopted at a recent session of the Diet includes also a new tax on beer at the rate of seven yen per *koku*. Taken all together, the estimated annual increase of the tax on alcoholic beverages amounts to 42,000,000 yen, with the result that this kind of tax now occupies the foremost place, not only among the indirect taxes, but among all the taxes, whether indirect or direct, including the land tax.

\* One *koku* is equal to 39.7 gallons.

The rate of the land tax was raised\* in 1899 to 3.3 per cent. of the legal value of land, the annual increase of revenue that results from it being estimated at 8,000,000 yen. There is, however, a peculiar circumstance which ought to be remembered in connection with the increase of the land tax. Owing to various circumstances, notably the rise in the price of its produce, the real value of land has been at least trebled, on the average, since its legal value was assessed at the basis of taxation; so that there is at present a wide discrepancy between its real and its legal value. Therefore, even with the above-mentioned increase, the rate of the tax on land is hardly more than one per cent. of its real value. In fact, the recent increase of the land-tax is only a partial set-off to the relative reduction of the burden of land owners that has automatically come about since the date of the land-tax reform.

Besides raising the rates of the income tax to between one and five and one-half per cent., the business tax was added in 1896 to the list of direct national taxes.† The rates and standards of this new tax are too complex to be summarized in a few words. It may suffice to observe that it is imposed upon business of various descriptions above a certain amount. The importance of this kind of tax lies in its bearing upon the distribution of the franchise; for the payment of a certain amount of direct national taxes is one of the qualifications for an elector of the members of the House of Representatives. While the payers of the land-tax are mostly of the agricultural class, the payers of the business-tax are mostly of the commercial and industrial classes. The introduction of the latter tax as a direct national tax, therefore, is calculated to counteract in some measure the political preponderance of the agricultural population. This is a sign of the times, showing the commercial and industrial development of the country.

The government monopoly of leaf-tobacco is a new feature of our financial systems, as remodelled in accordance with the *post bellum* programme. The establishment of this monopoly was intended to increase the national revenue, and, at the same time, to relieve the tobacco trade of vexatious regulations connected with the stamp and license duties on it that had formerly existed.

\* The increase of the land tax was agreed to as a temporary measure for a period of five years, at the end of which the question will have to be reconsidered.

† Various forms of business tax were formerly imposed as local taxes.

While, on the one hand, the *post bellum* programme has introduced new taxes and increased old ones, certain taxes, on the other hand, have been abolished, with a view to simplifying the system of taxation. Besides those referred to in the preceding paragraphs, the internal taxes existing at present are the soy tax, drug tax, registration tax, stamp duties, sugar tax,\* etc.

The customs duties were but a scanty source of revenue in the opening years of the present era, owing to the limitation, by the old treaties, of import and export duties to five per cent. *ad valorem*, as well as to the small volume of foreign trade at the time. For many years, indeed, the customs receipts did not exceed 3,000,000 yen. But, in consequence of the remarkable growth of foreign commerce, the revenue from the customs duties increased considerably in recent years, even under the old treaties, and amounted to 9,000,000 yen in 1898. In addition to this, the following year saw the revised treaties put into operation, and they, in a large measure, restored tariff autonomy to this country. With the taking effect of the new treaties, the export duties were entirely abolished, and a statutory tariff was generally applied to imports, the new rates of duties varying from five to thirty-five per cent. *ad valorem*, according to the kinds of commodities. A marked increase in the revenue from the customs duties ensued at once, as will be seen from the receipts under this head for 1899 and 1900, which were respectively 15,900,000 yen and 16,900,000 yen. Henceforth, the customs duties may be counted as one of the chief items of the state revenue. Moreover, the Japanese government has now acquired greater freedom in regulating the general system of taxation, because import duties on certain articles may be raised to degrees corresponding to the internal taxes on similar articles, as has been already done in the case of alcoholic drinks and tobacco. We have thus recovered tariff autonomy, so far as the general principle is concerned. But it is to be deplored that the import duties on certain important commodities are still limited by our treaties with a few countries, of which, I am happy to say, the United States is not one. Not that the Japanese nation contemplates adopting a policy of protection, and finds an obstacle to the adoption of such a policy in the remaining restrictions on tariff autonomy. Conventional tariffs on the basis of reciprocity

\* This tax went into operation on the 1st of October last.

may also be welcome to Japan. All we desire—I think, justly—is the total abolition of the unilateral obligations imposed upon us in regard to the tariff that have been allowed to linger in our existing treaty relations.

Looking back over the development of our system of taxation, we may notice that the basis of our national finances has steadily widened in proportion to the development of economic activities. It is a gratifying fact that, whereas the land-tax was at first the only substantial source of revenue, other taxes, especially indirect ones, have gained in importance, so much so that one of them now substantially exceeds the land-tax. It will be interesting to compare the following figures taken from the budget for 1901 with those for 1893, given above:

## ESTIMATED ORDINARY REVENUES FOR 1901.\*

	Yen.
Land tax.....	46,561,082
Income tax.....	5,618,255
Business tax.....	6,142,517
Tax on alcoholic drinks.....	55,230,970
Customs duties.....	15,770,137
Stamp duties†.....	18,699,069
Other taxes.....	9,418,508
Revenue from Government industries and Government property‡.....	49,728,897
Miscellaneous receipts.....	5,371,236
Total .....	207,540,670

A comparatively long space has been taken up thus far in describing our system of taxation, partly because of its importance as the basis of our national finances, and partly because of its peculiar relations with the reorganization of society in New Japan. Other branches of the financial system may now be treated with greater brevity. After the system of taxation, in the order of my exposition, comes the financial administration in the narrower sense of the term—that is, the management of the public Treasury.

During the first few years of the Restoration era, the financial administration was in a most disorderly condition, each Department of the government, in the absence of any fixed rules, managing its fiscal affairs with a large degree of independence. In 1872, the year following the political unification of the country by the establishment of the prefectural system, a first step was

\*The estimated increase of revenue resulting from the lastly adopted measures of increased taxation is here only partially taken into account, because they had not been put into operation from the beginning of last year.

†This item of revenue includes various kinds of fees, besides taxes.

‡Of the revenue from Government industries, 12,814,298 yen accrues from the tobacco monopoly.

taken towards centralizing the management of the government's fiscal affairs in the hands of the Minister of Finance, and in 1873 a "Procedure of Receiving and Disbursing" was determined on, which contained the germ of a budgetary system. The Law of Financial Administration, which was enacted in 1881, provided among other things for the formation of a Board of Audit directly responsible to the Emperor. By this time it was established in principle that the fiscal affairs of the government should be managed solely by the Department of Finance, subject to the examination of the Board of Audit. But it was with no small difficulty that the principle was given effect to, owing to the practice of allowing the various departments of the government to keep the respective funds appropriated to them, a practice which originated in financial chaos after the Restoration and was long a fruitful source of abuses. The year 1883 is a memorable one in consequence of the final abolition of this practice. In that year fiscal transactions of the government were entirely and effectively centralized in the Department of Finance; and, shortly afterwards, the receiving, keeping and disbursing of public money was entrusted to the newly established Bank of Japan. The long contemplated unification of financial administration was thus completely accomplished at last. Another important advance was made in 1886, when the practice of publishing the annual budgets and settled accounts in Imperial Ordinances was adopted. And with the promulgation of the Constitution in 1889, the Law of Financial Administration was revised and its system was given the present shape. The budget is now drawn up by the Minister of Finance and has to be voted annually by the Diet, to which the settled accounts, as attested by the Board of Audit, are also presented. Before the establishment of the Diet, all reforms in the system of financial administration were directed to unifying and regulating the management of fiscal affairs within the government; and, when this was fairly accomplished, the Constitution came to provide for political restraints from the outside. All this is, no doubt, a mere commonplace to financiers and publicists of Western countries. But the tact and energy of our successive Ministers of Finance have been considerably taxed in putting into operation a system conceived and framed in accordance with the accredited principles of financial administration.

The development of the monetary system forms one of the most important and most interesting chapters of the financial history of New Japan. But, since a detailed report on it has been officially translated into English,\* I shall here confine myself to a concise statement of a few prominent points.

Though a system of gold and silver coinage was established in the beginning of the Tokugawa Shogunate's régime and was nominally kept intact for more than two and a half centuries, it was practically destroyed by degrees in consequence of successive debasements resorted to by the Shogunate as a means for relieving financial distress, and also in consequence of the issue of paper money or clandestine coinages on the part of various clans. Facing the confused state, the Restoration government recognized at once the necessity of reorganizing the currency system. The New Coinage Law was promulgated in 1871 with a view to establishing the gold standard. But, as in those days silver was the universal medium of exchange in the trade of the Far East, it was difficult for Japan to maintain gold monometallism. The result was that the silver one yen or trade dollar, which had been originally intended as the medium of foreign trade within the limits of the treaty ports, was allowed after 1878 to circulate as legal tender throughout the country. From that time the currency system of Japan was on the basis of bimetallism.

There was, moreover, another circumstance which added to the difficulty of establishing a sound monetary system in the beginning of the Restoration era. The new government was obliged, for some time after its inception, to issue paper money, the circulation of which became impeded as its amount increased. Measures were taken before long to redeem these notes by an exchange with government bonds. But, just when their credit had been nearly recovered, the civil war of 1877, commonly known as the Satsuma rebellion, broke out, and the government was again driven to the untoward expedient of issuing inconvertible notes, which brought on a great depreciation of their value and a consequent disturbance of the economic world. To remedy this evil, the government, in 1881, began to take steps to redeem a portion of the paper money in circulation, and to increase the specie

\*"Report on the Adoption of the Gold Standard in Japan," by Count M. Matsukata, H. I. J. M.'s Minister of State for Finance, 1899.

reserve of the Treasury, with the object of establishing a convertible notes system. That object was accomplished in 1886, through the instrumentality of the Bank of Japan, which two years previously had been granted the exclusive privilege of issuing convertible notes. But since the specie reserve had to be accumulated mainly in silver, Japan found herself a silver standard country, when she was disentangled from the financial and economic disturbances that arose out of the inflation of paper money.

This was, perhaps, a stage in the development of our currency system that had to be necessarily passed through. The government, however, had never lost sight of the necessity of finally adopting the gold standard so as to exercise due influence in the economic movement of the world at large. The need of the reform became the more urgent as a result of the alarming depreciation of silver in recent years. Unexpectedly and fortunately, the receipt of the war indemnity from China offered us opportunity for effecting the long-desired change. As China had, at all events, to raise a loan in Europe, she was easily induced to pay the indemnity in British, instead of Chinese, money. Thus the sum of £32,000,000 sterling was put at our disposal; and, with a portion of it as reserve of the Bank of Japan, the gold standard system was put in operation on the 1st of October, 1897. The details of the new coinage system are beyond the scope of the present article; only it may be mentioned that one yen in gold, which is the new unit of coinage, was made approximate in value to the old unit in silver, so as to avoid an abrupt change in the price of commodities and a disturbance of the relations between debtor and creditor.

In connection with the development of the financial and the monetary system, it may not be out of place to give a brief account of the position of the Bank of Japan; and, by way of extension, of the general banking system in Japan. Although certain rudimentary organs of monetary circulation existed under the Shogunate, the banking system properly so called is a product of New Japan. At first, our system was modelled upon the American system, and a number of National Banks were established, subject to the regulations promulgated in 1872. They had the privilege of issuing convertible notes under seemingly favorable conditions, and those notes were designed gradually to

replace the inconvertible notes issued by the government. But, owing to the unabating efflux of specie from the country, the National Banks soon found it impossible to maintain the responsibility of specie payments, and the government had to allow them to exchange their notes with government notes. Thus they failed to be of use as instruments for the gradual withdrawal of inconvertible notes. As organs for the circulation of capital, too, they proved quite inadequate, because, with few exceptions, each of them was confined to a narrow and separate circle of influence. In parallel with the political unification of the country, the need of a central bank, placed in a supreme and commanding position above all others, became evident. The Bank of Japan was, therefore, established in 1882, for the purpose of bringing other banks nearer together, and of facilitating the monetary circulation throughout the country. The regulation of the currency was another object which the Bank of Japan was expected to aid in accomplishing. Hence, while the Bank of Japan was empowered in 1884 to issue convertible notes, the National Banks were deprived of that privilege in due course of time. After several alterations in the regulations concerning it, the Bank of Japan is now authorized to issue notes on securities, besides those on the specie reserve, to the extent of 120,000,000 yen. In case of pressing demand, it may make an issue beyond the ordinary limit, subject to the approval of the Minister of Finance and to the imposition of an extra-issue tax. The capital of the Bank of Japan was at first 10,000,000 yen, of which the half was held by the government. It stands now at 30,000,000 yen, the shares originally held by the government having been transferred to the Imperial Household.

Most of the National Banks, after the expiration of their charters, have been changed into private banks, and are now, on the whole, efficient organs of monetary circulation. These, together with other ordinary banks that have been newly established, numbered 1,868, with an aggregate capital of 354,000,000 yen.\* The savings-banks have been an object of particular care to the government, which, besides establishing the post-office savings system, has made special regulations for them, so that their business shall be carried on with greater security than in

\*The figures given here with reference to the banks are those of the end of 1900.



the case of ordinary banks. Their number is now 487, with an aggregate capital of 58,000,000 yen.

Besides the Bank of Japan, there are several organs of monetary circulation which deserve notice because of their peculiar nature. The Yokohama Specie Bank, established in 1880, and with a capital of 24,000,000 yen at present, is specially designed to facilitate foreign exchange. The Hypothec Bank (*Crédit Foncier*) of Japan, with a capital of 10,000,000 yen, was established in 1896, for the purpose of making long-term loans at low rates of interest on the security of real estate. While the Bank of Japan, as the central organ of monetary circulation, is essentially commercial in nature, the Hypothec Bank is the centre of the Agricultural and Industrial Banks (number 46, aggregated capital 28,000,000 yen), distributed over the country. To complete the organization of the banking system, a loan was enacted in 1900, providing for the establishment of the *Crédit Mobilier* of Japan, whose chief and characteristic function will be to make loans on the security of shares and debentures. At present, the Bank of Japan provisionally transacts this kind of business within certain limits. However, the need of two special organs for supplying capital, one on the security of real estate, and the other on the security of shares and debentures, was perceived as early as at the date of the establishment of the Bank of Japan. One having been furnished by the Hypothec Bank of Japan, it is our hope that the other will be also successfully established before long.

In concluding the present survey of the financial system, I feel impelled to make a remark on the general financial situation of Japan since the war of 1894-5. There are some people who hold the pessimistic view that the basis of our national finances has been endangered by the recent increase of national expenditures. It is true that the annual expenditures, which used to be about 80,000,000 yen before the war, have mounted up to about 200,000,000 yen in 1896, and to 275,000,000 yen in the budget for 1901. It is also true that the war with China was followed by economic disturbances, from which we are still suffering. But, if we take a broad view of the situation, any such alarm seems to be unwarranted. As Count Okuma pointed out in a preceding number of this REVIEW, Japan has, through an industrial revolution, entered on a new phase of economic life,

and has made great strides in the short period of thirty years. The armed struggle of 1894-5 being an occasion for the manifestation of accumulated national forces, the changes that have followed it may appear sudden and abrupt. If, however, comparison is made with the state of things in the early years of the Restoration era, it will be seen that the state expenditures at the present time are by no means out of proportion to the growth of national wealth.\* This may be evidenced by the fact that the greater part of the present revenue accrues from sources such as were either non-existent or quite insignificant at the beginning of the present era. To support my contention in another way, attention may be called to the fact that, while the total expenditure of 1900 is eight times that of 1868, the volume of foreign trade has multiplied fifteen-fold within the same period. The increase in the volume of foreign trade may be taken as an index of the general economic progress, though the ratio is not necessarily the same in all its branches. Seeing that Japan is quite a young country, so far as the present phase of her economic life is concerned, greater progress than in the past may be reasonably expected in the future; the more so, because the Western Pacific is fast growing in importance as a centre of the world's commerce. The vitality of the Japanese people has been proved by their achievements in the past thirty years, and the financial and economic institutions of the country are now in fair working order. If financial affairs and economic enterprises are directed with care and circumspection, we need not entertain misgivings about our capacity to bear the burden due to our new position among the Powers of the world.

M. MATSUKATA.

\*The following figures show the successive increase of the annual revenue and expenditure at the end of every ten years since the beginning of the present era:

Year.		Revenue.	Expenditure.
		Yen.	Yen.
1868 }	Settled accounts.....	33,089,301	30,505,060
1878 }		62,443,739	60,941,320
1888 }		92,956,919	81,504,004
1898 }		220,064,127	219,757,568
1901	(Budget).....	277,497,003	275,887,424